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ABSTRACT

A human resource (HR) function should be strategically integrated with a company's business plan to help the company achieve its business objectives. Four elements ensure that the HR function carries out this role: plan strategically, align activities, value employees, and be proactive. The major components of a strategic HR program--obtaining, maintaining, and developing human resources--can be built in a systematic manner. Each of these components has four key elements. The principal activities involved in obtaining employees are: staff planning, job analysis, recruitment, and selection. The key elements involved in maintaining human resources are: compensation and benefits, communication, dispute resolution, and work environment. The components involved in development are orientation, training, career development, and performance appraisal. The best way to get started in establishing a strategic HR function is to conduct an HR audit. Major components of audit formats include reviewing policies and procedures, focusing on compliance issues, and evaluating record keeping. (Contains 11 references.) (YLB)

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NATIONAL WORKFORCE ASSISTANCE COLLABORATIVE

WORKFORCE BRIEF #7

PREPARED BY THE NATIONAL ALLIANCE OF BUSINESS

Building a Strategic Human Resource Function

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"Although 1.3 million new businesses start annually, 40 percent fail the first year and 60 percent fail before the start of the third year. These new businesses must exercise care in managing human resources and integrating human resource strategies with their business strategies."

–Dr. Carolyn Wiley, University of Tennessee, Chattanooga

Introduction

All companies must plan, implement, and maintain some human resource (HR) operations for such things as paying their employees, keeping track of benefits, and screening and hiring applicants. Although such operations are of vital importance, they often are less valued than other aspects of business. It is not unusual for small businesses to wait until they have 100 employees to establish a dedicated human resource department. Smaller companies either have no human resources staff whatsoever, or have staff assigned human resource duties on a part-time basis. In many larger firms, the human resource (or personnel) department is considered a necessary evil, responsible for completing paperwork properly and on time.

Management frequently has only sketchy knowledge about the effectiveness and consequences of human resource policies and procedures. In many small and mid-sized businesses, typical human resource issues – unionization, turnover, mishires, benefits questions, and disparate treatment of employees – are often addressed solely on an as-needed basis. This creates an inefficient administrative apparatus and fails to maximize the human resources within the firm.

Human resource problems often arise when a business achieves success or engages in change efforts that move it beyond the capacities of long-used procedures, policies, and traditions. The consequences of mishandled HR issues can be great, affecting the very survival of the organization. Small and mid-sized firms need to establish HR processes and procedures to solve short-term problems, ensure the efficient administration of routine functions, anticipate long-term problems, and strategically meet company goals and objectives.

With technology and ideas moving around the globe at increasing speeds, a company's workforce is fast becoming its only mechanism for distinguishing itself from its competitors. More and more frequently, it is the workforce that enables a company to improve productivity and competitiveness and create value in the marketplace. Human resource issues are critical to business success.

This Workplace Brief will show that:

- An HR function can and should be strategically integrated with a company's business plan to help the company achieve its business objectives;
- The major components of a strategic HR program – obtaining, maintaining, and developing human resources – can be built in a systematic manner; and
- The best way to get started in establishing a strategic HR function is to conduct an HR audit.

HR's Strategic Role

The human resource function should be viewed in a strategic context, not as a staff function separate from the rest of the organization. It must play an important role in the company's strategic business planning. Four elements ensure that the human resource function helps a company achieve its business objectives:

- **Plan Strategically.** Strategic human resource planning ensures that human resource programs support the overall business plan. HR planning involves scanning the

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environment for influences that will have an impact on human resources (e.g., government, labor force demographics, competition, and economic conditions), conducting an assessment of the internal environment (e.g., skill inventory, current human resource problems), and forecasting the supply and demand for human resources. This human resource information is then incorporated into the overall business plan.

- ❑ **Align Activities**. The HR function must align itself with the rest of the organization. It must be a force for change which adds value to other organizational processes. The HR function must operate as a part of line management, rather than staff management. It must align and coordinate the company's investments in people with its changes in organization design and technology. The HR function should work with departmental managers, supervisors, and workers to guide investments in employee skill development to meet the demands created by the changing nature of work.
- ❑ **Value Employees.** Employees that provide a competitive advantage are a valuable asset, and company policies and practices should reflect that value. Only employees that feel valued will be committed to the company and fully apply their skills to improve company performance. The HR function should help create a work environment in which employees feel empowered, recognized and rewarded, well-trained, and trusted.
- ❑ **Be Proactive.** The human resource function must be proactive rather than reactive. In small and mid-sized businesses, the time between decisions and their impact is usually short. The HR function must anticipate and address issues before they become unmanageable. It must also ensure the company meets ever more demanding regulatory and compliance obligations such as those of the Equal Employment Opportunity Commission and Occupational Safety and Health Administration.

Components of a Strategic HR Program

A strategic HR program ensures that human resource policies and practices relating to *obtaining, maintaining,* and *developing* human resources support and are fully integrated in the overall business plan. It also *documents* activity related to these critical human resource processes.

Obtaining Human Resources

From a strategic perspective, no area of human resource management is more important than *obtaining* employees. The quality of the workforce is a prime determinant of the success of an organization. In a small or mid-sized business, one mediocre performer can be the difference between a profit or a loss.

Every organization will have some type of process for obtaining employees. What is critical is the quality of that process. The more attention a firm pays to the details of its process for obtaining employees, the greater the probability of attracting the best possible employees. There are four principal activities involved in obtaining employees – staff planning, job analysis, recruitment, and selection.

- ❑ **Staff planning.** Staff planning considers such things as projected growth, anticipated retirements, and turnover in order to forecast how many and what types of employees will be needed to fill specific positions. Staff planning links obtaining human resources to strategic planning.
- ❑ **Job analysis.** Job analysis is the primary tool for determining position requirements. It is an often neglected activity, yet it serves as the heart of most HR programs. Job analysis identifies the major duties of a job, including essential job functions; the knowledge, skills, and abilities necessary to perform the job; and other characteristics unique to the job. Knowing the specific talents necessary for a job make it easier to recruit and select competent employees. A job analysis is the only way to establish this relationship.
- ❑ **Recruitment.** Recruitment is an important component of business success. The organization must attract a large enough pool of applicants to make a suitable selection decision. Too often, small businesses focus their recruitment efforts entirely on classified newspaper ads; however, many alternative recruiting sources are available, including schools, community organizations, and government and private agencies. Many small businesses find it cost-efficient and beneficial to establish a good working relationship with the United States Employment Service's local job service and one-stop career centers.

Checklist: Becoming a Strategic Partner

- ❑ Be proactive. Don't wait to be anointed a strategic partner.
- ❑ Learn the business. Be a businessperson first and an HR person second.
- ❑ Strategically analyze HR. How does HR add value? If an HR function doesn't add value, don't do it.
- ❑ Change the image of HR. Shift the focus away from compliance. Demonstrate your concern for the total business by outsourcing, delegating, and investing in technology.
- ❑ Share the vision. Capitalize on a traditional HR strength – communication – to work tirelessly toward the corporate dream.

–1995 Society of Human Resource Management Survey

- **Selection.** Selection determines the ultimate success of the organization. Hiring the right people is a critical part of effective management. A business can use different assessment tools to help in selection, including structured interviews, published tests, reference checks, and other assessment devices. The key is to find a suitable match between the candidate, the position (as defined by the job analysis), and the organization.

Establishing a consistent process for obtaining human resources will increase the probability of attracting the best possible employees and reduce the chances of litigation related to employee selection.

Rhino Foods

When Rhino Foods, a 60-person speciality dessert manufacturer in Burlington, faced a drop in orders and excess capacity, the company entered into an employee exchange program for hourly employees with two nearby companies, including one of its biggest competitors, Ben & Jerry's. The Rhino employees who participated in this exchange learned new skills, gained a better understanding of their customer needs and business practices, and earned the same or higher pay and benefits. Rhino recalled its outplaced employees when market conditions improved. By instituting this exchange program, Rhino built the skills of its employees, avoided the stress and pain of lay-offs, and built a level of trust that is impossible to measure.

–Guide to Responsible Restructuring, U.S. Department of Labor

Maintaining Human Resources

Maintaining human resources means keeping employees satisfied and productive. This is accomplished by ensuring equity and fair treatment in employment, while minimizing conflict in and about the workplace. Often small and mid-sized employers lack the time and "know-how" to achieve this goal, thereby detrimentally affecting worker dedication, motivation, performance, and productivity. The key elements involved in maintaining human resources include compensation and benefits, communication, dispute resolution, and work environment.

- **Compensation and benefits.** Compensation and benefits packages are considered to be primary employee motivators. To be motivating, a package must be equitable, i.e., fair and consistent. Two types of equity are important: 1) internal equity, or how one employee is paid in relation to others within the organization, and 2) external equity, or how employees are paid in relation to employees in similar positions at other organizations. Internal equity can be a prime determinant of motivation and morale, while external equity is a prime determinant of turnover. Wage and benefit surveys and job evaluation studies are common mechanisms for establishing equity.

Small employers are challenged by the need to balance competitive pay with the need to control compensation costs. They can look for ways to use compensation strategically, developing compensation programs that support the business strategy, reinforce organizational structures, and enhance the desired culture of the organization. Strategic approaches to compensation tie pay to performance, encouraging organizational performance and enhancing a closer connection between employee and organizational goals by enabling employees to more fully share in the rewards and risks of the enterprise.

Recruitment Alternatives

- ✓ High schools
- ✓ Outreach sources for minorities and females
- ✓ Outplacement firms
- ✓ Customer point of contact
- ✓ Trade, industry, and professional associations
- ✓ Employee referrals
- ✓ Job fairs
- ✓ Colleges and universities
- ✓ Temporary agencies
- ✓ Private employment agencies
- ✓ Direct mail
- ✓ One-stop career centers
- ✓ Internet
- ✓ Private trade schools

- **Communication.** Two types of communication affect employee motivation. *Communication from management to employees* both motivates and ensures consistent human resource practices. Management should inform employees about company policies (e.g., an employee handbook summarizing personnel policies and procedures), update them about policy and organizational changes, and provide a forum for getting questions answered.

Communication from employees to management provides opportunities for individual and collective involvement in problem solving at all levels of the company, motivating employees while providing the company with sound suggestions on how to improve operations. Employee involvement programs may range from consultative committees (quality circles) to self-directed work teams.

- **Dispute resolution.** Dispute mechanisms need to be put in place so that issues are resolved before they magnify. The dispute resolution system should provide due process and allow free speech. The system should: 1) provide a clear process with specific forums to inquire about policies, procedures, or key decisions that an individual or group finds unjust, and to advocate

for a different outcome; and 2) include preventive and remedial mechanisms.

- **Work environment.** In today's tight economic environment, companies adopting family-supportive and other quality-of-life policies gain a competitive advantage by attracting and retaining a more talented, committed, and productive workforce. Supporting a high quality of work life and a safe working environment may involve: 1) improving the condition of the physical plant; 2) promoting health and fitness; 3) providing flexible work hours and days, accommodations for disabled employees, child care, and anti-discrimination policies and practices; 4) monitoring employee morale and commitment and promptly addressing problems; and 5) analyzing safety incidents and identifying ways to reduce accidents.

Developing Human Resources

In establishing a strategic human resource function, it is important to give proper attention to *developing* human resources. There are four components to developing human resources: orientation, training, career development, and performance appraisal.

- **Orientation.** Research has shown that new employee orientation programs have a direct relationship to turnover in the first years of employment. A well-designed new employee orientation program helps employees make the transition into the organization and their work areas. Typically a new employee orientation program will cover: 1) the normal workday; 2) the nature of the organization; and 3) the organizational policies, rules, and benefits.
- **Training.** Training is the process of developing an individual's proficiency in a particular job or organization. Changing technologies and new work structures and processes implemented in company transformations have raised the skill levels required for successful performance on the job and added to the importance of an effective training program.

  An effective employee training program should: 1) align with company performance objectives and job requirements; 2) reflect the workplace and its requirements (i.e., training curricula, structure, and delivery methods should be appropriate to the company's organizational structure, work processes, and culture); 3) address both job-based or occupational skill requirements and the academic or foundation knowledge, skills, and behaviors that underlie them; 4) be tailored to employees' needs; and 5) use evaluation measures to gauge both performance outcomes and the quality and effectiveness of the training process.
- **Career development.** Career development is the design and management of career opportunities that improve an organization's human resource preparedness, while providing individual employees with a more meaningful relationship to the organization over time. In today's competitive environment, career development often enhances employability through self-assessment tools, career counseling, educational opportunities, company job listings, and informing employees about future jobs.
- **Performance appraisal.** Successful organizations make serious efforts to monitor the performance of their employees. A performance appraisal system describes employees' job-related strengths and weaknesses and provides them with guidance and development assistance. It is a means for improving organizational performance by focusing on the relationship between individual behavior and strategic organizational objectives. A well-designed performance appraisal system also provides essential information for such human resource decisions as compensation, promotion, program assessment, and training.

  A successful performance appraisal system:
  - Is based on complete and accurate job analyses;
  - Uses appraisal instruments that match job descriptions and organization goals, provides adequate criteria for measurement, ensures objectivity, facilitates employee understanding and completion by the supervisor, and promotes individual goal setting;
  - Trains supervisors to know the criteria for evaluation, how to complete the performance appraisal instrument, and how to conduct a performance appraisal conference; and
  - Is adjusted periodically to ensure that it remains congruent with individual jobs and the organization's strategic objectives.

Norton Manufacturing Company

Norton Manufacturing Company has experienced tremendous growth in a tight labor market. To solidify its competitive position in the marketplace while developing a high-performance workforce, Norton is investing in its largest asset, its employees. To develop its current workforce, Norton used job task analysis and subject matter experts to create benchmarks for skilled employees. It then implemented an on-the-job training program, based on the National Metalworking Skills Standards, which combines classroom training and machine application. The administration of the training program is supported by a software program that directly links Norton to key partners in this endeavor – Vanguard-Sentinel Vocational School, Terra Community College, and various government agencies. To prepare its future workforce, Norton provides its courses and credentialing system to educational institutions and the local employment service.

Documenting Human Resource Activity

Human resource or personnel departments are responsible for a variety of activities, each of which requires extensive collection, manipulation, and transmission of information. A human resource record keeping and information system needs to be established to help in routine administration, report preparation, planning, and organizational decision making.

Documenting human resource information and activities benefits an employer in three ways. First, maintaining comprehensive records provides an internal checking procedure, ensuring that policies are consistently applied and enforced. Second, accurate and detailed records may be needed when a company is involved in a court or agency proceeding or union grievance. Third, monitoring human resource data such as absenteeism and turnover enables companies to address problems in these areas.

Papa John's Pizza

From its grassroots beginnings in June 1985, Papa John's has grown to 751 stores in twenty states, with a total revenue in 1994 of $161.5 million. Papa John's hired its first vice president of human resources in June 1993. The challenge facing HR was to identify all of the existing elements in the entrepreneurial culture, and then to standardize the culture, benefits, recruitment, and retention efforts to keep the company on the right track. Key steps included: 1) getting to know the company in order to strategically position HR to support the stores' needs; 2) revising the employee handbook; 3) standardizing performance appraisals; 4) streamlining employment procedures and centralizing employee data; 5) standardizing employee salaries and establishing a pay-grade system that allows for regional flexibility; 6) designing a benefits program that provides different benefits for each level of employee; 7) training store managers to use different recruitment tactics to help "build the perfect team"; 8) providing extensive training through ten regional training centers; and 9) promoting from within and rewarding performance goals.

–Personnel Journal, September, 1995

Human Resource Audit

The mechanics of setting up a strategic human resource department are not complex if approached in a systematic manner. In most cases, human resource activities already exist, although they may be dispersed throughout the organization. The first step in the establishment of a strategic human resource function is performing an HR audit. An HR audit appraises the quality of HR activities, services, or programs in order to institute changes to improve them. The audit examines every major aspect of HR management performed or not performed by the organization and identifies strengths, weaknesses, and necessary corrective actions. A number of different HR audit formats are available to a small business. Common components of audit formats include:

- **Review policies and procedures.** HR audits typically start with a comprehensive review of the organization's HR policies and procedures. The development of a clear and precise set of policies and procedures serves as a building block for other human resource activities. It also serves as a starting point for developing an employee handbook.
- **Focus on compliance issues.** Additionally, HR audits typically focus on legal and regulatory compliance issues involving equal employment opportunity, immigration reform, safety, wage and hour, employment-at-will, Employment Retirement Income Security Act (ERISA), Consolidated Omnibus Budget Reconciliation Act (COBRA), and the Family and Medical Leave Act. Most small businesses start the HR function by first addressing areas of vulnerability identified in the legal compliance portion of the HR audit.
- **Evaluate record keeping.** Another area of focus of an HR audit is record keeping. The HR audit should address contents of and access to employee files, required government reports, and procedures on the release of information. Additionally, an HR audit should examine the need for a human resource information system (HRIS), a computerized records management system.

Once the comprehensive HR audit is completed, the individual in charge of the human resource function can set priorities for activities in the critical areas of obtaining, maintaining, and developing human resources, and documenting human resource activity.

Further information on the issues presented in this brief can be obtained from:

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Three Approaches to a Human Resource Audit

- **Human Resource Network.** The Northeastern Pennsylvania Industrial Resource Center (NEPIRC) creates human resource networks composed of 8 to 15 companies. Each network strengthens a company's human resource functions through a process of on-site consulting and training. The program teaches companies how to operate more productively, comply with federal/state regulations, and reduce operating costs. Topics covered include employment issues, safety and health compliance, workers' compensation, labor and employee relations, employee benefits, and performance management.
- **Human Resource Assessment Protocol (HRAP).** Cleveland Advanced Manufacturing Program/Great Lakes Manufacturing Technology Center's HRAP is designed to help manufacturers improve their "people practices." HRAP uses a combination of individual interviews, group interviews, and employee surveys to investigate a firm's human resource practices to determine opportunities for improvement. The assessment looks at management and leadership, communications, education and training needs, empowerment, recognition/rewards and compensation/benefits, safety and health perceptions, and employee knowledge of customer wants and needs.
- **Human Resource Development (HRD) Model.** The Georgia Tech Economic Development Institute - HRD Center's assessment process is organized in "blocks" of HRD functions: HR development (training and development, organizational development, career development); HR planning (organization/job design, human resource planing, performance management systems, selection and staffing); and HR management (HR research and information systems, union/labor relations, employee assistance, compensation/benefits/HRD laws). A pre-qualifying interview is used to identify the client's specific concerns. Then, the assessment questions only focus on those HR attributes that relate directly to the company's current concerns. Data is collected in one-on-one interviews and focus groups. Recommendations show both qualitative and quantitative results.

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–Ray Weinberg, Silverstone Consulting and Stephen Mitchell, National Alliance of Business, 1996

The ***National Workforce Assistance Collaborative*** builds the capacity of the service providers working with small and mid-sized companies in order to help businesses adopt high-performance work practices, become more competitive, and ultimately advance the well-being of their employees. The Collaborative was created with a cooperative agreement grant from the ***Department of Labor*** to the ***National Alliance of Business***. Current partners on the project include the Council for Adult and Experiential Learning, the Institute for the Study of Adult Literacy at The Pennsylvania State University, the Maryland Center for Quality and Productivity, and the National Labor-Management Association. The Collaborative provides assistance in four areas: employee training, labor-management relations, work restructuring, and workplace literacy. For more information on the Collaborative, contact Cathy Stewart at the National Alliance of Business, phone: 202/289-2915, fax: 202/289-1303, e-mail: NWAC@NAB.COM.

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